

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6448**

**BILL NUMBER:** SB 192

**NOTE PREPARED:** Dec 20, 2012

**BILL AMENDED:**

**SUBJECT:** Income Tax Rates.

**FIRST AUTHOR:** Sen. Buck

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☐ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State

**Summary of Legislation:** The bill decreases the Individual Adjusted Gross Income (AGI) Tax rate from 3.4% to 3.0% in 0.1% decrements over four years. The phasedown of the tax rate begins in tax year 2014.

**Effective Date:** July 1, 2013.

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the changes made by the bill. The DOR's current level of resources should be sufficient to implement these changes.

**Explanation of State Revenues:** *Summary:* The bill will result in a revenue loss to the state General Fund. The revenue loss from the rate reduction is estimated to begin in FY 2014 and is outlined in the table below.

Fiscal Year	State General Fund Impact (in Millions)	Percent Reduction in Tax Revenues
2014	- \$68.6	-1.4%
2015	- \$214.6	-4.1%
2016	- \$372.1	-6.9%
2017	- \$542.1	-9.6%
2018	- \$643.9	-11.0%

The analysis assumes that the individual income tax filers will change their quarterly estimated payments and income tax withholding payments based on the reduced tax rates. These adjustments will occur starting January 1, 2014, for Tax Year 2014, and at the beginning of three subsequent tax years. The full impact of the rate phase down would occur in FY 2018 and thereafter.

**Background:** Under current law, Indiana imposes a flat income tax rate of 3.4% on adjusted gross income (AGI) of individual income taxpayers. The Individual AGI Tax rate reduction would occur as specified in the table below.

<b>Tax Year</b>	<b>Current Rate</b>	<b>Proposed Rate</b>	<b>Percentage Point Change from Current Rate</b>	<b>Percent Change from Current Rate</b>
<b>2013</b>	<b>3.4%</b>	<b>3.4%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>2014</b>	<b>3.4%</b>	<b>3.3%</b>	<b>-0.1%</b>	<b>-2.9%</b>
<b>2015</b>	<b>3.4%</b>	<b>3.2%</b>	<b>-0.2%</b>	<b>-5.9%</b>
<b>2016</b>	<b>3.4%</b>	<b>3.1%</b>	<b>-0.3%</b>	<b>-8.8%</b>
<b>2017 and thereafter</b>	<b>3.4%</b>	<b>3.0%</b>	<b>-0.4%</b>	<b>-11.8%</b>

Since the fiscal year begins on July 1, any change in the tax rate beginning January 1 will lead to the fiscal year having two different tax rates. The average of the two different tax rates occurring in FY 2014, FY 2015, FY 2016, and FY 2017 was calculated and used to estimate the revenue loss in each year. The Revenue Technical Committee forecast (December 17, 2012) forecasted individual income tax revenue of \$5,011.6 M in FY 2014 and \$5,213.1 M in FY 2015. Income tax revenues for FY 2016 and FY 2017 were estimated using FY 2015 as the base year and applying the historical compound average annual growth rate. Results from empirical literature on taxable income elasticity along with the proposed decrement in tax rate were used to calculate the impact of rate change on taxable income for each fiscal year. The fiscal impact will continue to result in an estimated revenue loss of 11% of the income tax collections at the current tax rate in years thereafter. 100% of the state individual income tax is deposited in the state General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Indiana Department of Revenue.

**Local Agencies Affected:**

**Information Sources:** State Revenue Forecast, December 17, 2012. OFMA Income Tax Database. State Revenue Forecast, December 17, 2012. OFMA Income Tax Database. Long, James E. "The Impact of Marginal Tax Rates on Taxable Income: Evidence from State Income Tax Differentials." Southern Economic Journal 65(4): 855. Bruce, Donald, John Deskins, and William Fox. (2005) On the Extent, Growth, and Efficiency Consequences of State Business Tax Planning." Donald Bruce, John Deskins, and William Fox.

(2006). "On The Relative Distortions of State Sales, Corporate Income and Personal Income Taxes."

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